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Omenahotellit: A Room with a View for the Internet Generation

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ABSTRACT

The great advances in information and communication technologies (ICT) and the increasingly positive attitudes among consumers to embrace the Internet as an advanced commercial medium have spurred the emergence of many innovative and interesting business models - even in the traditional sectors such as travel and tourism. This case study portrays the unique and novel accommodation concept launched by Omenahotellit (Omena Hotels), a new Finnish hotel chain which offers high-class accommodation at a rate that is significantly lower than the general price level. The company challenges the conventional service concept used by most other players in the field by fully exploiting the Internet and other forms of ICT in its operations. The customer books and pays for the room using the company's proprietary online reservation system at www.omena.com, after which the room key - a 5-digit numerical code - is delivered to the customer electronically. All doors are equipped with code locks, and all possible work tasks, including the reservation and cancellation process, are completely automated. The hotels have neither reception personnel nor a reception desk, and there is no need for check-in or check-out procedures. The business model of Omenahotellit excels in cost-efficiency by offering the core product of hotel operations without expensive built-in auxiliary services. Nearly all tasks (housekeeping, security) are outsourced, and no intermediaries are used in the distribution channel.

Keywords

Travel, hotels, accommodation, e-commerce, business model

INTRODUCTION: IT AND THE ACCOMMODATION SECTOR

While the vast majority of travel service providers in the world are classified as small and medium-sized tourism enterprises, SMTEs (Buhalis, 1996, 1999; Werthner and Klein, 1999), it is evident that the hotel sector has reached a stage of development in which a few major chains have come to dominate the international market, mainly as a result of an expansion largely achieved through franchising. Due to scarce resources and deficient marketing and management functions, SMTEs are often over-dependent upon tourism intermediaries for promoting and distributing their products, and thus face enormous difficulties competing with their larger counterparts (Buhalis, 1999). Against this background, the emergence of electronic markets on the Internet has been seen as an enormous opportunity for small and medium-sized hospitality organizations (SMHOs) to improve their competitive position (Sheldon, 1997; Buhalis and Main, 1998; Werthner and Klein, 1999). While IT has played an important role in the travel industry earlier, it has now become the travel industry's key partner, as the development of the Internet offers new unprecedented opportunities for even tiny tourism organizations (Buhalis, 1999). However, as pointed out by Anckar and Walden (2001), obstacles such as financial limitations, lacking expertise/understanding of IT and e-commerce, and resistance to change at both management and worker levels still hinder SMHOs from fully exploiting IT and Internet commerce.

On a global as well as a national scale, the hospitality industry features a great diversity of organizations in terms of size, scope, geographical location and financial wherewithal. Accordingly, the Internet strategies chosen by different players in the field have been, and remain, very different: While some players have not even begun to consider developing an Internet presence, others - especially large hotel chains - embraced the opportunities offered by IT at a very early stage, starting to use advanced information systems and providing Web sites with online booking services already a long time ago. In spite of the fact that many players in the travel industry have been forerunners in the field of IT, the information systems and technologies used in the hospitality industry have, as a rule, merely been constructed to support - and possibly extend (but not

replace) - the existing (conventional) business models: The traditional services and functions continue to exist abreast with the new technological solutions, and the business models tend to remain relatively unchanged after the implementation of new technologies and systems. ICT is thus used primarily to broaden the market (by making the product available to more people), to cut costs, and/or to enhance the efficiency of particular business processes. However, with the great advances in ICT, the progress to the next generation of online services, and increasingly positive attitudes among consumers to embrace the Internet as an advanced commercial medium, we have witnessed the emergence of many innovative and interesting business models - even in the somewhat conservative accommodation sector.

In this study we portray the unique and novel accommodation concept and business model launched by Omenahotellit (Omena¹ Hotels), a new Finnish hotel chain which challenges the traditional service concept used by most other players in the field by fully exploiting the Internet and other forms of ICT in its operations. The aim of the paper is twofold: To (i) illustrate how the use of IT and e-commerce allows for entirely new business models and new modes of competition even in sectors where most players operate in a highly traditional way, and (ii) to demonstrate the implications of such truly IT-enabled business models in terms of customer value creation. Using the case study research method, our aim is to deepen and broaden our understanding of a given phenomenon - new business models for the digital economy - through one well-documented instance and a real-world application. The case study research strategy, which aims at gaining insights rather than collecting statistically significant evidence, is nowadays routinely used in economics and technology research (see e.g. Yin, 1994).

As a rule, interviews and field observations play a central role in case study research, and this study is no exception in this respect. However, the data collection process differed slightly from the typical procedure in case study research, as the first author, Dr. Bill Anckar, is the managing director of the hotel chain Omenahotellit. We have thus had full access to timely and relevant inside information that is rarely made available to scholars. The accuracy of the data has been checked, and certain details have not been revealed as they must be regarded as business secrets.

The paper is structured as follows: After a brief presentation of the company background, we introduce the unique concept of Omenahotellit, after which we present the motives behind the chosen EC strategy. Finally, we briefly report on the experiences and outlook of the company after a few months in business.

COMPANY BACKGROUND

Having graduated with a Bachelor of hospitality management in the mid-1970s, Rabbe Grönbloom was an ambitious young man who eagerly wanted to learn more about the hotel business from behind the reception desk. He soon realized, however, that he did not possess the work experience required to get the top management positions he was interested in, and soon decided to focus on the restaurant sector instead. Grönbloom founded a small pizzeria in Vaasa, Finland, tempted by the low capital requirements in that business. The restaurant was successful right from the start, and Grönbloom soon expanded his business to several other cities in Finland. A few years later the chain, Pizzeria No. 1, evolved into *Kotipizza* (www.kotipizza.fi), a chain which rapidly expanded through franchising, and today runs more than 300 outlets, being the second largest pizza restaurant chain in Europe.

The early - and ongoing - success of Kotipizza gave Grönbloom both the financial resources and the confidence to fulfill his childhood dreams relating to the hospitality industry: In the mid-1980s he founded his first hotel, and soon started looking into the possibility to establish a chain of budget hotel accommodation in Finland. At that time, almost one million euros was spent on the Omenahotelli project, which was a joint effort by Grönbloom and a major Finnish hotel chain. The efforts taken in the late 1980s involved (i) surveys conducted to establish (a) whether there is a market for low cost hotel accommodation, and (b) which services and amenities the hotel guests are willing to pay for, and (ii) building a number of demo rooms to be used by actual hotel guests in order to come up with a basic room model room which would be inexpensive to build, easy to clean, yet accepted by the market.

At the onset of the severe recession in the early 1990s, the market situation deteriorated rapidly, and the project Omena was laid on ice. In the process, Grönbloom purchased all rights to the Omenahotelli project and research findings for a nominal fee. As a result of the devaluation of the Finnish markka in 1991, Grönbloom's loans became intolerably high over night, and in spite of the successful hotel operations, which showed record-high occupancy rates, he had to sell his hotel for a nominal fee. All plans on launching new hotel operations were discontinued until the late 1990s, when Grönbloom opened a small luxurious Gasthaus hotel in a popular ski resort in northern Finland. One year later, Grönbloom decided to reactivate the Omenahotelli project, spurred by a recent study which had indicated that the time was right for the low budget concept. Two

¹ Finnish for "apple".

years later, the first Omena Hotel was opened in the ski resort Rukatunturi, and the first step was taken in Grönblom's vision to establish a chain of Omena hotels.

A UNIQUE BUSINESS MODEL

"About 5% of the consumers are exceptional. They behave differently – in a rational, intelligent way. They know exactly what they want, and they are always ready to adopt new ideas and solutions that offer indisputable benefits. Their accommodation arrangements reflect this rationality. They refuse to pay for superfluous services, a receptionist's smile, or for check-in/-out procedures. Instead, they choose a luxurious room at a modern low-cost hotel in the city center. Welcome to the club!"²

Most people perceive an apple ("omena") as a fruit that is widely available, cheap, nutritious, locally grown, and disliked by few although not the most exotic alternative in the fruit stand. This largely reflects the basic idea in the Omenahotelli concept and the main promise of the company: To offer travelers high standard hotel accommodation at prime locations - in town centers - at a truly affordable rate. High class yet inexpensive prices seems like an impossible equation, but Omena's business model excels in cost-efficiency by offering the core product of hotel operations - a room for the night - without expensive built-in auxiliary services such as sauna/pool departments, conference facilities, or hotel restaurants. The hotels are always situated in the absolute city centre, within the vicinity of shops, services, activities, and good transport connections, meaning that the services the hotel does not offer can be found right outside the hotel.

The Omena concept builds on the comprehension that today's society is becoming ever more mobile, and that the appeal of visiting other places, especially familiar places people visit as part of their work, has decreased. Most travelers' motives and interests can be found outside the hotel, and therefore they pick a hotel at a pre-defined destination rather than picking the destination based on the hotels available. When traveling frequently and with tight schedules, customers typically do not need sauna/pool departments or other expensive luxury services. Nevertheless, the availability of such services is always reflected in the room rate irrespective of whether a guest uses these services or not.

At traditional hotels, rates for the same room generally vary substantially depending on the weekday, the season, and the current availability situation. Omenahotellit offers a fixed room rate of 55 euros/room/night for all rooms in all cities. Maximum occupancy per room is 4 persons. All the rooms are similar in terms of size, amenities and interior design, and are equipped with a toilet, shower, TV, wireless keyboard, refrigerator, microwave oven, tea/coffee maker, bed sofa, and a dinner table for four. The rooms are larger than the typical 4-star hotel rooms offered by the main competitors in Finland, and they certainly do not pale in comparison with the expensive hotels as far as the room size and amenities are concerned. However, the service level is not the same, as the customer is responsible for nearly all tasks himself.

Omenahotellit has set up an ambitious expansion plan, stating that the company hopes to expand into the 30 largest cities in Finland by the year 2008. The plan is that the chain will comprise approximately 40 small units - a total of 2000 rooms³ - by that time.

Target Groups

The management of Omenahotellit believes that the new accommodation concept can be appealing to almost all travelers, except for those who look for magnificence and luxurious special services. Although the Omena hotels do not offer the trappings of a spa holiday, the hotels represent a natural choice especially for the following customer segments that do not necessarily want or require accommodation in a single room, but are willing to share the room with up to three other friends or family members: (i) *young people* who appreciate the central location and the inexpensive rates; (ii) *sports clubs/teams and other non-profit associations* that need low-priced, yet high-quality lodging; (iii) *families with children*, who can choose comfortable and inexpensive hotel accommodation instead of the guest bed at their relatives' place. The concept can be seen as equally interesting to *business travelers*, who rarely have the time to use the auxiliary services offered by traditional hotels, yet appreciate the central location and the opportunities for in-room broadband Internet access. Many companies today are striving to cut down their travel expenses radically, and Omenahotellit hopes to be able to take advantage of this opportunity by targeting this particular customer segment.

² This is how the online user is greeted at the main page of the Omenahotellit.

³ Which translates into a market share of approximately 4%.

Laptop Management

The business model of Omenahotellit marks originality also when observing the company's organizational structure: Since the routine tasks have been arranged according to self-service principles and automated using IT, the company is, to a certain extent, managed by its customers and by computerized systems. Omenahotellit has, in fact, only one full-time employee - the managing director. Instead, the company draws on a rather extreme outsourcing strategy, relying on a large network of partners to handle tasks such as: (i) project management relating to opening new hotels (architects and engineering firms); (ii) system hosting and monitoring; (iii) housekeeping (cleaning and maintenance); (iv) security; (v) customer service; and (vi) marketing. The company has no office facilities, but is operated through "laptop management" using a virtual, largely paperless office.

Cost Efficiency through IT

When the Omena concept was planned in the late 1980s, the Internet and other IT-based solutions did not offer great opportunities in terms of cost cutting or customer service, and the low cost strategy of Omena was initially built on quite different initiatives and formats, for instance peripheral locations. However, new insights as well as innovative - and successful - attempts and methods to utilize IT and the Internet in the travel sector (for instance the paths shown by the low-cost air carriers EasyJet and Ryanair) spurred the integration of modern technologies in Omenahotellit's business model. The operational philosophies of these budget airlines and Omenahotellit are in many ways similar, but the course selected by Omenahotellit goes even further in the exploitation of ICT.

If we take a closer look at the hotel sector, we can assert that ICT is becoming - and to a certain extent has become - the bread and butter of everyday life. In spite of the rapidly expanding use of computers and information systems in hotel operations in general, we cannot find - even on a global scale - any other hotel business in which new technology is utilized to the extent that we could say that the business model itself is essentially based on it. The inexpensive room rate offered by Omenahotellit is largely a result of the radical cost cutting achieved by truly maximizing the use of IT and the Internet in the operations:

Reservations and payments. The entire booking/cancellation process is handled by the customer himself on the Internet. The customer accesses the online reservation system at www.omena.com, makes a reservation, pays for it by using secure online banking/credit card payment solutions, and receives a confirmation which shows the room number and the key to the room - a 5-digit numerical personal door code (which the customer can choose himself) that is valid throughout his stay. The customer can also book and pay for extra services such as pay-TV, early check-in, and in-room Internet access already when booking his room. Companies and organizations that have signed a key customer agreement with Omenahotellit do not have to pay for the reservation online, but can choose to get an electronic invoice (which is automatically generated and sent by the reservation system and entered in the ledger) instead. As a result, even the traditional invoicing tasks have been automated.

Reception procedures. All Omena hotels operate without a reception desk or reception personnel, as all traditional reception tasks have been completely automated using IT. Since all reservations have already been paid for, and the room keys have been delivered electronically in advance, there is no need for check-in or check-out procedures such as handing over keys or charging the customers. The entrances are equipped with electronic service points, "kiosks", through which walk-in customers can book a room and pay with their credit cards. Outside the hotels, there are neon signs showing bypassing travelers whether rooms are vacant or not. The signs are connected to the reservation system, and the information shown is thus automatically updated based on the real-time availability situation in that particular hotel.

Customer safety and convenience. All doors are always locked, and only guests with a valid door code can enter the premises. The entrance and the hallways are monitored by recording surveillance cameras. The digital recordings can be accessed remotely by the security personnel. In case of emergency/problem situations, the guests can contact the security company via the in-room TV or by phoning the help desk (which is on duty around the clock) using his mobile phone or the hotline phone located in the entrance hall. Through the in-room TV-system the customers can also get all the necessary hotel information and contact the service company for maintenance, etc.

Management tasks, service and maintenance. Many time-consuming tasks such as providing (government) authorities with relevant statistical data have been automated almost completely. The lists of rooms to be cleaned are automatically generated and delivered to the housekeeping staff by e-mail every morning. The orders for hotel room textiles (bed linens, towels, etc.) are sent to the laundry service directly by the system based on the number of rooms booked and the total number of occupants.

EC STRATEGY FORMATION

In comparison to physical channels, the Internet has been seen to bring consumers a great number of potential advantages. In the context of travel and tourism, a number of benefits stand out as especially relevant: Beside obvious advantages relating to *greater accessibility and convenience*, potential travelers are likely to benefit from greater amounts of multimedia *destination information* and *real-time information* on price and availability. Likewise, the electronic marketplace offers consumers a *wider selection* of travel service providers, greater *control of the search for information* (Sheldon, 1997), *ease of bookings*, *time savings*, and especially *price reductions*⁴ resulting from increased competition, reduced operational/transaction costs, and the reduction or elimination of middlemen in the distribution chain (disintermediation).

E-commerce was seen as the corner stone in Omenahotellit's business model from day one onwards. The main driving factor in Omena's chosen strategy was that a company cannot exploit, in full, the many potential benefits electronic channels and IT can offer both sellers and buyers by using new technologies just to support - or as an extension of - existing processes and operations. Although many big players in the traditional marketplace have been able to attain a dominant position in the e-marketplace as well (largely thanks to their established reputation and sufficient financial resources), such a phenomenon reflects the insecurity and lack of trust among online customers in the early phases of e-commerce rather than superiority in terms of online value creation. Optimizing the special advantages offered by IT and e-commerce requires as a rule, rather, pure e-business models and a lack of restraints, including costs, set by existing bricks-and-mortar operations. For Omenahotellit, this meant focusing exclusively on the electronic sales channel, thus not offering alternative sales channel such as call centers⁵ or sales offices - not even reception personnel.

This strategic decision displays a conviction that the pessimistic sentiments towards e-commerce expressed in the last few years just reflect the consumers' disappointment with the poor quality and content on the Web in the early years of e-commerce, and that we have already entered a new wave of technological adoption where the exaggerated cynicism towards IT no longer exists, and where online services are starting to meet the consumers' expectations and requirements. Omenahotellit's decision makers shared the view of Olsen *et al.* (2000) who argued that it is no longer fruitful to resist IT or take a "wait-and-see"-approach, and that the hospitality industry must overcome its reluctance to invest in new ideas and technologies that transform the organization, drive the bottom line, and generate value.

Value Proposition

Customer value is not automatically created as a company launches Internet services. Value creation is, rather, a complex process which strongly relates to every aspect of a company's operation and the choices it makes; what it sells and how its products are marketed. The key value proposition of Omenahotellit primarily relates to: (i) the provision of real-time information, instant gratification, and high quality of content and applications online; (ii) simplicity of lodging (no check-in/check-out procedures), and especially (iii) a fixed room rate and a very attractive price/quality ratio. The low price is a result of numerous factors, the most important of which are:

- A full automation of many tasks and a resulting reduction in labor costs in comparison to hotels using traditional business models.
- Customer self-bookings: According to both intuitive logic and established theory, the fact that the online booker does all the work himself should allow for reduced selling prices in comparison to alternative channels. While studies show that such benefits have not accrued to prospective travelers utilizing the Internet (Anckar and Walden, 2002), Omenahotellit reasons that online self-bookers, which clearly cut costs for a supplier in comparison to reservations handled by a sales workforce, must be rewarded in the form of lower rates.
- Disintermediation⁶: Both private and corporate customers make their reservations over the Internet by accessing the hotel's proprietary reservation system. No middlemen or sales persons are used in the booking process, and no

⁴ The holiday tourist is extremely sensitive to both the absolute level of price and to changes in prices (Burkart and Medlik, 1981). Furthermore, since many travel products possess *parity* - meaning that competing companies offer the same basic product (Burke and Resnick, 2000), travelers tend to show little or no brand loyalty (Warren and Ostergren, 1990; Robinson and Kearney, 1994; Baloglu *et al.*, 1998).

⁵ Omenahotellit does offer phone reservation services, but this task is handled by an independent service provider who charges the customers for the service through a telephone fee of 0.95 €/min. The service involves no additional costs for Omenahotellit.

⁶ Disintermediation points towards an elimination or reduction of intermediaries altogether due to direct producer-consumer relationships. See Anckar (2003) for a detailed description of the phenomenon and its theoretical foundations.

commissions are thus paid to intermediaries. The remarkable savings realized this way are returned to the customers in the form of inexpensive prices. Any customer who wants to use a travel agent to make the reservation will have to pay the travel agent's requested fee on top of the room rate.

System Design

With a business model which fundamentally draws on ICT, the issues relating to system selection, design and integration are of crucial importance, and for a start-up company there are not only numerous different options to choose from, but also numerous opportunities and threats to be considered.

Most established hotel management software solutions available on the market are extensive packages that have emerged as a result of a development process that started long before the opportunities offered by Internet were reality or even understood. As a result, they have mainly been developed to support traditional business models and hotel operations, and to be installed locally on the reception PCs (typically referred to as *property management systems*). Although they do include all possible functions a traditional hotel may ask for, they often have limitations in terms of Internet reservation features with real-time availability requests - features that have been implemented as add-on modules using standardized, complex, time-consuming, and user-unfriendly search mechanisms and reservation processes.

For a hotel chain, the annual license fees (which often are charged based on the number of hotels using the system or on the reservations/transactions made) for established software packages can be very high, a fact which Omenahotellit had to give much consideration given the ambitious growth plans of the company. As it became evident that the system requirements of Omenahotellit were very different from what the established solutions could offer, the company decided to design a complete reservation and hotel management system from scratch in order to generate a solution that is specially designed for the purposes of Omenahotellit, taking e.g. the following special demands into consideration:

- full automation and integration with the TV-system provider
- full automation and integration with the major online banks and online payment services of credit card institutions
- full automation and integration with the system operating the door locks
- a novel, customer-friendly booking interface supporting the provision of real-time information in terms of room availability and facilitating a business model lacking check-in/check-out procedures
- all reservations made and administered on the Internet (by customers and the personnel)
- full automation of many management functions as well as tasks relating to service and maintenance
- great flexibility in terms of continued development and modifications
- easily extended to include a mobile interface for bookings and payments

The proprietary reservation and administration system, which was launched in May 2003, was tailor-made for Omenahotellit's exceptional business model, and is fully owned by the company. The development costs for the entire solution roughly corresponds to the annual license fee for established hotel management software solutions for the planned chain of 40 Omena hotels. The system, which was planned by Omenahotellit in cooperation with the system developer, has seen many further developments since it was launched. The reservation system and database resides on a central server, which generates, upon reception of a confirmed payment, a valid door code for a specific hotel room for the dates booked. The reservation system sends the data to the door lock system, which resides on a local server in each hotel.

EARLY EXPERIENCES AND OUTLOOK FOR THE FUTURE

The experiences of Omenahotellit are interesting, as the company operates with an ICT-enabled business model previously unseen even on a global scale in the hotel sector, and thus should be seen as a forerunner.

In the budget accommodation sector, the Accor Group, which boasts nearly 4,000 hotels in 90 countries, has built up a strong reputation under, among others, the brand names Ibis, Etap, Formule 1, and Motel 6. Nevertheless, these hotels operate with a largely traditional business model, offering traditional reception and reservation services and using the Internet primarily as an extended sales and information channel. Instead, the low rates typically reflect the quality of the accommodation, in particular the room standard, as well as the peripheral location of the hotels. Business models comparable to that of

Omenahotellit, are however, starting to emerge: Stelios Haji-Ioannou, the founder of the budget air carrier EasyJet, has recently announced that he will launch a franchise business, *EasyHotel* (www.easyhotel.com) offering truly low cost accommodation. Although the concept resembles Omena's, the accommodation standard will nevertheless not be comparable to that of Omenahotellit, which matches any 4-star hotel in terms of room size and amenities. The EasyHotels are obviously targeted for young single travelers or couples, whereas Omenahotellit target a broad market segment including both families and business travelers.

Thus far, the marketing resources and efforts of Omenahotellit have been limited, and more massive advertising campaigns will be carried out as soon as the number of hotels increases to 7-10 by the end of 2005. In spite of that, the first months of operations have showed promising figures, with room occupancy rates clearly exceeding the expectations set for that period, approaching the break-even margin already at an early stage. The early adopters have primarily been young people, groups and families who recognize the value of a room which can accommodate 4 persons, a fact which is confirmed by the average number of guests per room, which is as high as 2.46. This means that the average price per guest/night has been as low as 22.40 eur. Contrary to the situation in most other hotels, the weekends have been far more popular than the weekdays, a fact which indicates that business travelers have been slow adopters of the concept. As a result, recent marketing activities have targeted this important customer segment.

Presently there are three Omena hotels in operation in Finland, but contracts have already been signed for new units, with several ongoing negotiations for further expansions, primarily by transforming existing office spaces located in city centers into Omena hotels.

In this case study we have presented Omenahotellit, a new Finnish hotel chain which challenges the conventional service concept used by most other players in the accommodation sector by fully exploiting the Internet and other forms of ICT in its operations. In doing so, we have describes how this venture was set up, and how it operates. In particular, we have aimed at providing valuable insights as to the opportunities new ICT-enabled business models can offer even in a sector which justly can be characterized as conservative. In addition, we have highlighted a number of important issues that are at the core of the customer value creation process in an online environment, where new modes of competition emerge.

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